

SOUTH LAKE SCHOOLS

St. Clair Shores, Michigan

ANNUAL FINANCIAL STATEMENTS

with Supplementary Information

FOR THE YEAR ENDED

JUNE 30, 2008



SOUTH LAKE SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
South Lake Schools
St. Clair Shores, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of South Lake Schools as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of South Lake Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

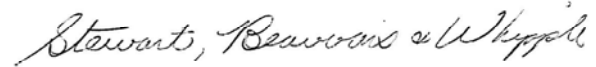
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of South Lake Schools, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2008, on our consideration of South Lake Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 and budgetary comparison on page 31 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Lake Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

October 28, 2008

This section of South Lake Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand South Lake Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund, the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statements, the Statement of Fiduciary Net Assets and Statement of Net Assets-Proprietary Fund, present financial information about activities for which the School District acts solely as an agent for the benefit of students/parents and employee benefits.

Management's Discussion and Analysis (MD&A)
(Required Supplementary Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplementary Information)
Budgetary Information for the General Fund

Other Supplementary Information

Reporting the School District as a Whole – District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, childcare, food services, and capital projects. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Athletics, Food Services, and Latch Key Funds are examples) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money, such as the bond funded construction fund used for voter-approved capital projects. The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation on pages 13 and 15.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its employee benefit trust and student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets and change in net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2008 and 2007:

TABLE I

		Governmental Activities (in millions)	
		2008	2007
Assets			
Current and other assets		\$ 20.8	\$ 8.8
Capital assets, net of accumulated depreciation		<u>29.4</u>	<u>30.0</u>
Total Assets		<u>50.2</u>	<u>38.8</u>
Liabilities			
Current liabilities		2.8	2.9
Long-term liabilities		<u>29.8</u>	<u>19.6</u>
Total Liabilities		<u>32.6</u>	<u>22.5</u>
Net Assets			
Invested in property and equipment, net of related debt		11.4	10.8
Restricted		2.3	2.0
Unrestricted		<u>3.9</u>	<u>3.5</u>
Total Net Assets		<u>\$ 17.6</u>	<u>\$ 16.3</u>

Management's Discussion and Analysis (continued)

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table II) of the School District's governmental activities is discussed below. The School District's net assets were \$17.6 million at June 30, 2008. Capital assets, net of related debt (\$11.4 million) compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets (\$2.3 million) are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$3.9 million) was unrestricted.

The \$3.9 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table II), which shows the changes in net assets for fiscal year 2008 and 2007.

TABLE II

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Revenue		
Program Revenue:		
Charges for services	\$ 696,208	\$ 772,099
Grants, categoricals, and contributions	3,092,025	2,560,825
General Revenue:		
Property taxes	8,797,201	8,662,912
State foundation allowance	15,697,200	16,625,908
Other	<u>323,760</u>	<u>352,382</u>
Total Revenue	<u>28,606,394</u>	<u>28,974,126</u>
Functions/Program Expenses		
Instruction	13,596,529	13,912,337
Support services	11,317,032	11,457,747
Community services	298,585	108,031
Athletics	456,469	439,535
Food services	644,407	596,942
Latchkey	204,436	190,080
Outgoing transfers and other transactions	23,581	11,562
Interest on long-term debt	<u>889,599</u>	<u>948,205</u>
Total Expenses	<u>27,430,638</u>	<u>27,664,439</u>
Increase in Net Assets	<u>\$ 1,175,756</u>	<u>\$ 1,309,687</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$27.4 million. Certain activities were partially funded from those who benefited from the programs (\$.7 million) or by other governments and organizations that subsidized certain programs with grants, categoricals, and contributions (\$3.1 million). We paid for the remaining “public benefit” portion of our governmental activities with \$8.8 million in taxes, \$15.7 million in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$1,175,756. The increase in net assets differs from the change in fund balance and reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$17.1 million, which is an increase of \$11.4 million from last year. The primary reason for the increase was \$10.9 million in bond proceeds. In the General Fund, our principal operating fund, the fund balance increased by \$130,928 to \$3,810,164. Overall, actual General Fund revenues were within 99.8% of budgeted amounts with expenses within 97 percent of budgeted amounts.

- Combined, the Debt Service Funds showed a fund balance increase of \$493,605. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay semi-annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were decreased by \$808,732. The overall change of 3.1 percent was insignificant. The change is mostly attributable to a reduction in state revenues resulting from actual student enrollment (and state membership aid) falling below initial projections.

- Budgeted expenditures and transfers were decreased by \$118,618. The overall change of .5 percent was insignificant. The change is attributable to a reduction in facility/equipment repairs and teaching supplies.
- There were no significant variances between the final budget and actual amounts.

Capital Asset and Debt Administration**Capital Assets**

At June 30, 2008 the School District had \$39.4 million invested in a broad range of capital assets before depreciation, including land, building, furniture, and equipment. This amount represents a net increase of capital assets prior to depreciation (including additions and disposals) of approximately \$100,000 or .2 percent, from last year.

	<u>2008</u>	<u>2007</u>
Land	\$ 580,332	\$ 580,332
Buildings	36,568,904	36,500,371
Buses and other vehicles	1,052,175	1,052,175
Furniture and equipment	<u>1,220,539</u>	<u>1,192,236</u>
Total capital assets	39,421,950	39,325,114
Less accumulated depreciation	(<u>10,063,985</u>)	(<u>9,327,631</u>)
Net capital assets	<u>\$ 29,357,965</u>	<u>\$ 29,997,483</u>

This year's additions of \$96,836 included equipment, technology and building improvements. No additional debt was issued for these additions.

Several capital projects are planned for the 2008-2009 fiscal year. We anticipate capital additions will be more than the 2008-2009 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements on page 27.

Debt

At the end of this year, the School District had \$29.1million in bonds outstanding versus \$19.6 in the previous year – a change of 49 percent. Those bonds consisted of the following:

	<u>2008</u>	<u>2007</u>
General Obligation Bonds	<u>\$ 29,080,000</u>	<u>\$ 19,555,000</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding qualified general obligation debt of \$29.1 million is significantly below the statutorily imposed limit for unqualified debt.

Other obligations include a capital lease, employee-compensated absences and severance plan benefits. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2008-09 fiscal year budget. One of the most important factors affecting the budget is our student count. Foundation revenue, which is composed of State aid and local property taxes, is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008-09 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2008-09 fiscal year budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Approximately 92 percent of total General Fund revenues are from the foundation allowance.

Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of 2008-2009 school year, we anticipate that the fall student count will be below the estimates used in creating the 2008-09 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Furthermore, recent legislation to increase the state's income tax will help ensure funds are sufficient to fund the appropriation.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Department, 23101 Stadium Boulevard, St. Clair Shores, MI 48080.

BASIC FINANCIAL STATEMENTS

SOUTH LAKE SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 16,245,187
Investments	642,904
Receivables -	
Accounts	12,784
Taxes (Net allowance for doubtful accounts)	127,083
Due from other governmental units -	
State	3,159,413
Local	185,813
Prepaid expenses	211,594
Deferred charges - issuance cost	257,784
Capital Assets (net of accumulated depreciation)	
Assets not being depreciated	580,332
Assets being depreciated	<u>28,777,633</u>
Total Assets	<u>50,200,527</u>
LIABILITIES:	
Accounts payable	195,969
Accrued payroll and payroll taxes	2,158,295
Accrued interest	136,428
Due to other governmental units	108,534
Deferred revenue	187,813
Non current liabilities-	
Due to employees within one year	326,547
Due to employees due more than one year	624,220
Bonds Payable due within one year	1,594,863
Bonds Payable due more than one year	<u>27,220,441</u>
Total Liabilities	<u>32,553,110</u>
NET ASSETS :	
Investment in capital assets, net of related liabilities	11,392,522
Restricted -	
Debt service	1,958,638
Capital projects	388,577
Food service	22,584
Unrestricted	<u>3,885,096</u>
Total Net Assets	<u><u>\$ 17,647,417</u></u>

The accompanying notes are an integral part of these financial statements.

SOUTH LAKE SCHOOLS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 13,596,529	\$ 31,299	\$ 2,711,419	\$ 38,971	\$(10,814,840)
Support Services	11,317,032	123,299	-	-	(11,193,733)
Community Services	298,585	-	-	-	(298,585)
Athletics	456,469	20,623	-	-	(435,846)
Food Services	644,407	317,379	341,635	-	14,607
Latch Key	204,436	203,608	-	-	(828)
Outgoing Transfers and Other Transactions	23,581	-	-	-	(23,581)
Interest and fiscal charges on long term debt	889,599	-	-	-	(889,599)
Total governmental activities	<u>\$ 27,430,638</u>	<u>\$ 696,208</u>	<u>\$ 3,053,054</u>	<u>\$ 38,971</u>	<u>\$(23,642,405)</u>
General Revenues:					
Taxes:					
Property taxes, levied for general purposes					6,196,752
Property taxes, levied for debt services					2,600,449
State aid unrestricted					15,697,200
Interest and investment earnings					323,760
Total general revenues					<u>24,818,161</u>
Change in net assets					<u>1,175,756</u>
Net assets at beginning of year					16,253,816
Prior period adjustment					<u>217,845</u>
Net assets at beginning of year as restated					<u>16,471,661</u>
Net assets at end of year					<u>\$ 17,647,417</u>

The accompanying notes are an integral part of these financial statements.

SOUTH LAKE SCHOOLS

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2008

	General	2008 Construction	Other Non-Major Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 2,915,270	\$ 10,872,399	\$ 2,457,518	\$ 16,245,187
Receivables -				
Accounts	10,563	-	100	10,663
Taxes (Net of allowance)	93,048	-	34,035	127,083
Due from other funds	100	-	-	100
Due from other governmental units -				
State	3,159,413	-	-	3,159,413
Local	185,813	-	-	185,813
Prepaid expenditures	211,594	-	-	211,594
	<u>\$ 6,575,801</u>	<u>\$ 10,872,399</u>	<u>\$ 2,491,653</u>	<u>\$ 19,939,853</u>
Total Assets				
	<u>\$ 6,575,801</u>	<u>\$ 10,872,399</u>	<u>\$ 2,491,653</u>	<u>\$ 19,939,853</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 116,110	\$ 52,140	27,719	\$ 195,969
Accrued payroll and payroll fringes	2,158,295	-	-	2,158,295
Due to other governmental units	108,534	-	-	108,534
Due to other funds	117,044	-	100	117,144
Deferred revenue	265,654	-	26,792	292,446
Total Liabilities	<u>2,765,637</u>	<u>52,140</u>	<u>54,611</u>	<u>2,872,388</u>
Fund Balances :				
Reserved -				
Prepaid expenditures	211,594	-	-	211,594
Debt service	-	-	1,958,638	1,958,638
Capital projects	-	10,820,259	418,179	11,238,438
Unreserved -				
Designated -				
Working capital	2,614,677	-	-	2,614,677
Employee compensated absences	420,499	-	-	420,499
Undesignated -				
General Fund	563,394	-	-	563,394
Special Revenue Funds	-	-	60,225	60,225
Total Fund Balances	<u>3,810,164</u>	<u>10,820,259</u>	<u>2,437,042</u>	<u>17,067,465</u>
Total Liabilities and Fund Balances	<u>\$ 6,575,801</u>	<u>\$ 10,872,399</u>	<u>\$ 2,491,653</u>	<u>\$ 19,939,853</u>

The accompanying notes are an integral part of these financial statements.

SOUTH LAKE SCHOOLS

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS JUNE 30, 2008

Fund Balances - total governmental funds	\$ 17,067,465
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	39,421,950
Accumulated depreciation	(10,063,985)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
	104,633
Internal Service Fund used by management to charge cost of the School District's termination payments for qualified employees. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	
	231,801
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable	(29,080,000)
Accrued interest on bonds payable	(136,428)
Accrued compensated absence	(420,499)
Losses on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for net assets (netted against bonds payable)	
	705,653
Premiums on bonds are reported as other financing sources in the governmental funds, where they are capitalized and amortized from net assets (netted against bond payables)	
	(440,957)
Bond issuance costs reported as debt retirement in the governmental funds, where they are deferred and amortized from net assets	
	<u>257,784</u>
Net Assets of governmental activities	<u><u>\$ 17,647,417</u></u>

The accompanying notes are an integral part of these financial statements.

SOUTH LAKE SCHOOLS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2008

	General	2008 Construction	Other Non-Major Governmental Funds	Total
Revenues:				
Local sources	\$ 6,621,953	\$ -	\$ 3,303,531	\$ 9,925,484
State sources	17,011,291	-	33,401	17,044,692
Federal sources	804,790	-	308,234	1,113,024
Interdistrict sources	594,574	-	-	594,574
Total Revenues	<u>25,032,608</u>	<u>-</u>	<u>3,645,166</u>	<u>28,677,774</u>
Expenditures:				
Current -				
Instruction	13,010,203	-	-	13,010,203
Support services	11,148,872	-	-	11,148,872
Community services	298,585	-	-	298,585
Athletics	-	-	441,046	441,046
Food service	-	-	665,157	665,157
Latch key	-	-	204,436	204,436
Outgoing transfers and other transactions	23,581	-	-	23,581
Capital outlay	-	-	88,552	88,552
Debt service	-	150,381	2,230,572	2,380,953
Total Expenditures	<u>24,481,241</u>	<u>150,381</u>	<u>3,629,763</u>	<u>28,261,385</u>
Excess of revenue over (under) expenditures	<u>551,367</u>	<u>(150,381)</u>	<u>15,403</u>	<u>416,389</u>
Other Financing Sources (Uses) :				
Bond proceeds	-	10,900,000	-	10,900,000
Premium on debt	-	70,640	-	70,640
Transfer In	-	-	420,439	420,439
Transfer Out	(420,439)	-	-	(420,439)
Total Other Financing Sources (Uses)	<u>(420,439)</u>	<u>10,970,640</u>	<u>420,439</u>	<u>10,970,640</u>
Net Change in Fund Balance	130,928	10,820,259	435,842	11,387,029
Fund Balances at beginning of year	<u>3,679,236</u>	<u>-</u>	<u>2,001,200</u>	<u>5,680,436</u>
Fund Balances at end of year	<u>\$ 3,810,164</u>	<u>\$ 10,820,259</u>	<u>\$ 2,437,042</u>	<u>\$ 17,067,465</u>

The accompanying notes are an integral part of these financial statements.

SOUTH LAKE SCHOOLS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES JUNE 30, 2008

Net change in fund balances - total governmental funds	\$ 11,387,029
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	96,836
Depreciation expense	(736,354)
Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds	(71,380)
The issuance of long-term debt (e.g. bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net assets.	
Principal payment on bonds	1,375,000
Bond proceeds	(10,900,000)
Bond premium, net of amortization	(25,028)
Deferred issuance cost, net of amortization	139,076
Amortization of deferred loss on refunding	(74,281)
Internal service fund used by management to charge costs of the School Districts termination payments for qualified employees.	13,956
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Increase in compensated absences	(35,044)
Decrease in accrued interest	5,946
Change in net assets of governmental activities	<u><u>\$ 1,175,756</u></u>

The accompanying notes are an integral part of these financial statements.

SOUTH LAKE SCHOOLS

**PROPRIETARY FUND - INTERNAL SERVICE FUND
STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS

Investments	\$ 642,904
Due from other funds	117,044
Interest receivable	<u>2,121</u>
	762,069

LIABILITIES

Due to employees	<u>530,268</u>
------------------	----------------

NET ASSETS

Unrestricted	<u><u>\$ 231,801</u></u>
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**PROPRIETARY FUND - INTERNAL SERVICE FUND
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008**

Operating Revenues:

Charges for services employer contributions	\$ 103,344
---	------------

Operating Expenses:

Employee benefits	<u>107,686</u>
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Operating Loss

(4,342)

Non-Operating Revenues:

Interest earned	<u>18,298</u>
-----------------	---------------

Change in Net Assets	<u>13,956</u>
----------------------	---------------

Net Assets at beginning of year	-
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Prior period adjustment	<u>217,845</u>
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Net Assets at beginning of year as restated	<u>217,845</u>
---	----------------

Net Asset at end of year	<u><u>\$ 231,801</u></u>
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The accompanying notes are an integral part of these financial statements.

SOUTH LAKE SCHOOLS

PROPRIETARY FUND - INTERNAL SERVICE FUND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2008

Cash Flows From Operating Activities:

Employee benefits paid	\$(228,953)
Collections from other funds	<u>292,844</u>

Cash Provided by Operating Activities	<u>63,891</u>
---------------------------------------	---------------

Cash Flows From Investing Activities:

Interest earned	22,769
Purchase of investments	<u>(214,106)</u>

Cash Used by Investing Activities	<u>(191,337)</u>
-----------------------------------	-------------------

Net Decrease in Cash and Cash Equivalents for the year	(127,446)
--	------------

Cash and Cash Equivalents at beginning of year	<u>127,446</u>
--	----------------

Cash and Cash Equivalents at end of year	<u><u>\$ -</u></u>
--	--------------------

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss for the year	\$(4,342)
-----------------------------	------------

Adjustments to reconcile operating loss to net cash provided by
operating activities - Changes in assets and liabilities:

Due from other funds	203,200
Due to employees	<u>(134,967)</u>

Net Cash Provided by Operating Activities	<u><u>\$ 63,891</u></u>
---	-------------------------

The accompanying notes are an integral part of these financial statements.

SOUTH LAKE SCHOOLS

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
STUDENT ACTIVITIES AGENCY FUND
JUNE 30, 2008**

ASSETS:

Cash and cash equivalents	\$ 283,998
Investments	<u>4,494</u>
Total Assets	<u><u>\$ 288,492</u></u>

LIABILITIES:

Accounts payable	\$ 2,292
Due to student groups	<u>286,200</u>
Total Liabilities	<u><u>\$ 288,492</u></u>

The accompanying notes are an integral part of these financial statements.

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by South Lake Schools conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant accounting policies used by the School District:

A. Reporting Entity -

South Lake Schools, located in St. Clair Shores, Michigan, was established under the Constitution and statutes of the State of Michigan. South Lake Schools is one of twenty-one (21) school districts located in Macomb County, Michigan, each of which is a separate governmental entity. The School District operates under an elected School Board (seven members) and provides services to its more than 2,400 students in many areas, including basic education, special education, vocational education, adult education, athletics, and food services.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. Based on these criteria the School District had no component units.

B. District-wide and Fund Financial Statements -

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, unrestricted state aid and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for Governmental Funds and the Fiduciary Funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

As a general rule, the effect of interfund activity has been eliminated from district-wide financial statements.

The Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund - is the School District's primary operating fund. It accounts for all activities not reported in other funds.

2008 Construction Fund - is used to record expenditures in connection with remodeling, re-equipping, and refurbishing school buildings, equipment, technology and school buses.

Additionally, the District reports the following fund type-

Special Revenue (School Service) Funds - are used to account for specific revenue sources (other than major capital projects), requiring separate accounting because of legal or regulatory provisions or administrative action. The District has three Special Revenue Funds which are Athletics, Food Service and Latch Key.

Debt Service Funds - are used to account for the accumulation of resources for the payment of principal and interest on long-term debt.

Capital Project Funds - are used to record transactions related to the expenditure of bond proceeds for the renovation and expansion of the School District buildings.

Internal Service Fund - is used to account for accumulated resources to fund termination payments for qualified employees.

Agency Fund - is used to account for assets held by the School District as an agent for student clubs and other activities.

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the School District's policy to apply restricted resources first then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity -

Deposits and Investments -

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition, money market and governmental pool investment funds which are recorded at cost which approximates fair value. The governmental pool investment funds have the general characteristics of demand deposit accounts in that the School District may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

Receivables and Payables -

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds." (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All property taxes and trade receivables are shown net of an allowance for uncollectible amount.

Prepaid Items -

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide financial statements and in the fund financial statements.

Property Tax Calendar –

Property taxes are levied as of July 1 and December 1, by the various municipalities within the school district based on the assessed value the preceding December 31. Taxes are due on September 14 or February 14, respectively, with the final collection date of February 29, after which the delinquent real property taxes are added to the County roll.

In connection, Macomb County has established a Delinquent Tax Revolving fund whereby all local units of government, including the School District, are paid for the delinquent real property taxes each year. The County will charge back to the local units of government any real property taxes not collected at the end of four years. Past experience has indicated that such chargebacks should not be material.

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Capital Assets -

Capital assets, which include property, buildings, equipment and vehicles are reported in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of \$5,000 or more and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The School District does not have infrastructure type assets.

Property, buildings, equipment and vehicles of the School District are depreciated using the straight-line method over the estimated useful lives:

Building and improvements	20-50 years
Buses and other vehicles	10-15 years
Furniture and equipment	7-20 years

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the School District, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vested vacation and sick leave is accrued when incurred in the district-wide fund financial statements. A liability for this amount is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations -

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources. Premiums received on debt issuances are reported as other financial sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity -

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Comparative Data -

Comparative Data is not included in the School District's financial statements.

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Federal Programs –

Federal Programs are accounted for in the General and Special Revenue Funds of the District. The District has not integrated its Single Audit Reports and Schedule of Expenditures of Federal Awards as part of the Annual Financial Report. The Single Audit is issued under separate cover as supplementary information to the Basic Financial Statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Compliance -

The General and Special Revenue Funds budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and are on the same modified accrual basis used to reflect actual results.

The departments, in conjunction with the School District Business Manager, prepare and submit their proposed operating budgets for the fiscal year commencing July 1. The budgets include proposed expenditures and resources to finance them.

Prior to June 30, the proposed budget is presented to the Board of Education. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Board of Education Resolution. After the budget is adopted, all amendments must be approved by the Board of Education.

The School District's approved budgets were adopted at the function level for the General and Special Revenue Funds. These are the legal enacted levels under the State of Michigan Uniform Budgeting and Accounting Act and the level of budgetary control adopted by the Board of Education (the level at which expenditures may not legally exceed appropriations). The General Fund budget was maintained at the account level for control purposes.

The School District does not employ encumbrance accounting as an extension of budgetary integration. All amounts appropriated lapse at year-end.

Budget amounts are reported as the original adopted and the final amended by the Board of Education during the year.

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

Expenditures at these legally adopted levels in excess of the amounts budgeted are a violation of the Budgetary Act. During the year expenditures exceeded appropriations as follows:

	Final Budget	Actual	Variance
Food Service Fund	\$ 648,937	\$ 665,157	\$ 16,220

Most of the overage of expenditures was a result of recording prior year commodities as required by the Michigan Department of Education.

Bond Compliance -

2008 Construction Fund -

The School District is remodeling, re-equipping, refurbishing school buildings, athletic facilities and other facilities and preparing, developing and improving sites at school buildings, athletic fields and playgrounds, erecting, equipping and furnishing additions to school buildings and preparing, developing and improving sites for additions to school buildings; erecting, equipping and furnishing athletic facilities and improving sites for athletic facilities; equipping and re-equipping school buildings for technology systems and equipment and purchasing school buses; and paying costs of issuing the Bond.

The accumulated costs as of June 30, 2008 are \$150,381.

For these Capital Projects Funds, the School District has complied with the provisions of Section 1351a of the Revised School Code.

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2008, the carrying amount of the deposits and investments is as follows:

	Governmental Activities	Fiduciary Funds	Total
Cash on Hand -			
Petty Cash	\$ 4,496	\$ -	\$ 4,496
Deposits with Financial Institutions -			
Checking/Money Market	11,361,198	283,998	11,645,196
Savings/Certificates of Deposit	647,912	4,494	652,406
Total Deposits	12,009,110	288,492	12,297,602
Investments -			
Investment Pools	4,874,485	-	4,874,485
	\$ 16,888,091	\$ 288,492	\$17,176,583
Reconciliation to Combined Balance Sheet			
Reported as Cash and Cash Equivalents -			
Petty Cash	\$ 4,496	\$ -	\$ 4,496
Checking/Money Market	11,361,198	283,998	11,645,196
Investment Pools	4,874,485	-	4,874,485
Savings/Certificates of Deposit	5,008	-	5,008
Total Cash and Cash Equivalents	16,245,187	283,998	16,529,185
Reported as Investments -			
Certificates of Deposit	642,904	4,494	647,398
	\$ 16,888,091	\$ 288,492	\$17,176,583

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

Custodial Credit Risk – Deposits –

Custodial Credit Risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan. The District does not have a deposit policy for custodial credit risk.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each (\$250,000 as of October 3, 2008). Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2008 the carrying amount of the School District deposits is \$12,297,602, and the bank balance is \$12,741,057. Of the bank balance, \$562,576 is covered by Federal Depository Insurance, with the remaining \$12,178,481 exposed to credit risk since it is uninsured and uncollateralized.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the School District evaluates each financial institution it deposits School District Funds with and assesses the level of risk of each institution. The School District uses only those financial institutions with an acceptable estimated risk level as depositories.

Investments -

The District does not have a policy regarding the type of investments or concentration of credit risk; however, Michigan Public Act 132 of 1986, as amended, has authorized School Districts in Michigan to invest surplus funds in the following types of investments:

- a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- b) Certificates of deposit issued by a state or national bank, savings account of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in the State.
- c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d) Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- e) United States government or federal agency obligation repurchase agreements.
- f) Bankers' acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
- h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Credit Risk – Investments - The District had \$4,874,485 invested in three investment pools. The investment pools are investment funds created exclusively for Michigan public school districts. The funds comply with all the requirements of Michigan Public Act 451 of 1976. The funds invest primarily in U.S. Government securities, commercial paper, mutual funds and repurchased agreements.

The balances at June 30, 2008, per investment pool are as follows:

	<u>Amount</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Average Days to Maturity</u>
Michigan Liquid Asset Fund	\$ 2,654,597	AAAm	Standard & Poor's	60
Comerica School Cash Investment Fund	2,089,782	A1	Standard & Poor's	23
Fifth Third Government Fund	<u>130,106</u>	Not rated	-	11
	<u>\$ 4,874,485</u>			

These investment pools have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the district may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

Custodial Credit Risk – Investments – is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in possession of another party.

The securities of the investment pools are safe kept with a third party selected by the counterparty. However, the pool's securities are held in trust for the participants of the fund that are not available to the counterparty if the counterparty should happen to fail. We believe this arrangement satisfies the District's investment policy safekeeping requirement.

Concentration of Credit Risk - Investments - is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's attempts to minimize risk by diversifying its investments by maturity dates, individual financial institutions, and/or security type, so that potential loss on individual securities do not exceed the income generated from the remainder of the portfolio.

Interest Rate Risk – Investments – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. At year-end, the School District's Certificates of Deposits totaling \$647,398, all have maturity dates of less than one year.

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 4 - CAPITAL ASSETS:

Capital assets activity of the School District for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Assets, not being depreciated:				
Land	\$ 580,332	\$ -	\$ -	\$ 580,332
Capital assets, being depreciated:				
Building and improvements	36,500,371	68,533	-	36,568,904
Buses and other vehicles	1,052,175	-	-	1,052,175
Furniture and equipment	1,192,236	28,303	-	1,220,539
Total capital assets being depreciated	38,744,782	96,836	-	38,841,618
Less accumulated depreciation for:				
Building and improvements	8,105,147	592,070	-	8,697,217
Buses and other vehicles	612,114	66,196	-	678,310
Furniture and equipment	610,370	78,088	-	688,458
Total accumulated depreciation	9,327,631	736,354	-	10,063,985
Total capital assets being depreciated, net	29,417,151	(639,518)	-	28,777,633
Total capital assets	\$29,997,483	\$(639,518)	\$ -	\$29,357,965

Depreciation expense was charged to the various function/programs as follows:

Governmental Activities -	
Instruction	\$ 618,066
Support services	101,413
Athletics	15,423
Food service	1,452
	<u>\$ 736,354</u>

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The composition of interfund balances is as follows:

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	2008 Debt Fund	\$ 100(1)
Internal Service Fund	General Fund	<u>117,044(2)</u>
		<u>\$ 117,144</u>

(1) Reimbursement for new debt fund deposit.

(2) Transfer employee benefit expenses.

Interfund Transfers:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Athletic Fund	General Fund	<u>\$ 420,439 (3)</u>

(3) To support operations in the Athletic Fund.

NOTE 6 - DEFERRED REVENUE:

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Personal Property Taxes	\$ 104,633	\$ -
Grants/deposits received by the District not expended at June 30, 2008	<u>-</u>	<u>187,813</u>
Total	<u>\$ 104,633</u>	<u>\$ 187,813</u>

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 7 - LONG-TERM DEBT:

The following is a summary of changes in the long-term debt (including current portions) for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
District-wide Financial Statements -					
Bonds payable	\$ 19,555,000	\$10,900,000	\$ 1,375,000	\$ 29,080,000	\$ 1,620,000
Deferred amounts for –					
Refunding Loss	(779,934)	-	(74,281)	(705,653)	(74,281)
Issuance Premium	415,929	70,640	45,612	440,957	49,144
Accrued vacation/sick leave	<u>385,455</u>	<u>35,044</u>	<u>-</u>	<u>420,499</u>	<u>-</u>
	19,576,450	11,005,684	1,346,331	29,235,803	1,594,863
Internal Service Fund -					
Employee Benefits	<u>637,835</u>	<u>103,344</u>	<u>210,911</u>	<u>530,268</u>	<u>326,547</u>
	<u>\$ 20,214,285</u>	<u>\$ 11,109,028</u>	<u>\$ 1,557,242</u>	<u>\$ 29,766,071</u>	<u>\$ 1,921,410</u>

Bonds Payable -

South Lake Schools issued Building and Site Bonds for the purposes of acquiring land, erecting and remodeling and furnishing and equipping various schools. The bonds are being paid from ad-valorem taxes levied without limitation as to rate or amount as provided by the Michigan Constitution. The bonds payable at June 30, 2008, per respective issue are as follows:

1997 Building and Sites Bonds for equipping and furnishing additions and school buildings; improving athletic fields, playgrounds and other facilities; and acquiring, installing and equipping school buildings for technology systems and equipment, dated November 1, 1997, with original issue of \$25,000,000, were partially refunded February 2005. The remaining bonds are due in annual installments of \$1,050,000 in 2008, \$1,950,000 in 2013 and 2014; interest of 5.125 percent, payable semi-annually.

\$ 3,900,000

In February 2005 \$15,465,000 of general obligation unlimited tax refunding bonds were issued to purchase direct obligations of or obligations in which the principal of and interest are unconditionally guaranteed by the United States of America, which were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments representing \$1,830,000 of the 1995 refunded and \$13,875,000 of the 1997 partially refunded general obligation unlimited tax bonds. As a result, the refunded bonds are considered defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$965,631. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt, which is the same as the life of the

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 7 - LONG-TERM DEBT - (cont'd):

new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 13 years by \$1,883,395 and resulted in an economic gain of \$742,046. The bonds are due in annual installments ranging from \$1,520,000 to \$1,910,000; interest increasing from 3.25 to 5.0 percent, payable semi-annually.

\$ 14,280,000

2008 Building and Site Bonds for remodeling, re-equipping, refurbishing school buildings, athletic facilities and other facilities and preparing, developing and improving sites at school buildings, athletic fields and playgrounds, erecting, equipping and furnishing additions to school buildings and preparing, developing and improving sites for additions to school buildings; erecting, equipping and furnishing athletic facilities and improving sites for athletic facilities; equipping and re-equipping school buildings for technology systems and equipment and purchasing school buses; and paying costs of issuing the Bond dated June 26, 2008 \$10,900,000. The bonds are due in annual installments ranging from \$40,000 to \$900,000; interest increasing from 3.25 to 4.75 percent, payable semi-annually through 2028.

\$ 10,900,000

\$ 29,080,000

The Debt Service Funds have \$1,958,638 available at June 30, 2008, to service the Building and Site Bonds.

Accrued Vacation and Sick Leave -

The accrued vacation and sick leave represents the unmatured portion of accumulated unpaid sick leave due qualifying School District employees upon termination with the District.

\$ 420,499

Severance Pay -

The severance pay amount represents a liability for teachers and principals who opted for the Employee Severance Plan which is being administered through EPC. A plan was offered to employees during 2007 with exit dates through June 30, 2008. During fiscal 2008, \$103,344 was transferred to an Employee Benefits Trust Fund to cover payments made annually over a multiple-year period to EPC totaling \$530,268 as they come due.

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 7 - LONG-TERM DEBT - (cont'd):

Annual Debt Requirements -

The annual requirements to pay the debt outstanding at June 30, 2008 for the following obligation (excluding vacation and sick) are as follows:

	District-wide Financial Statements		Fiduciary Fund
	Bonds		Severance Pay
	Principal	Interest	Principal
2009	\$ 1,620,000	\$ 1,188,937	\$ 326,547
2010	1,735,000	1,210,234	179,520
2011	1,825,000	1,149,759	12,511
2012	1,840,000	1,086,134	8,080
2013	1,990,000	1,012,834	2,510
2014-2018	11,225,000	3,575,803	1,100
2019-2023	4,380,000	1,649,900	-
2024-2028	4,465,000	635,549	-
	<u>\$29,080,000</u>	<u>\$11,509,150</u>	<u>\$ 530,268</u>

NOTE 8 - OPERATING LEASE:

The School District has entered into a non-cancelable lease agreement for the lease of four copiers. The agreement is for a term of 48 months. As of June 30, 2008, the minimum future rental payments are as follows:

Fiscal Year Ended June 30,	
2009	\$ 3,253
2010	<u>3,253</u>
	<u>\$ 6,506</u>

NOTE 9 - DEFINED BENEFIT PENSION PLAN:

Plan Description -

The School District, as part of the Michigan Public School System, is required by State law to participate in the Michigan Public School Employees Retirement System (MPERS), a statewide cost sharing multiple-employer defined benefit pension plan administered by the nine-member board of the MPERS. The MPERS provides retirement, survivor and disability benefits and currently operates under the provisions of Act 300 of the Public Acts of 1980, as amended. The plan covers substantially all employees of the School District. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the Office of Retirement Services, Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909-7671.

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 9 - DEFINED BENEFIT PENSION PLAN - (cont'd):

Funding Policy -

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits amounts on a cash disbursement basis. The actuarial rate for the period July 1, 2007 through September 30, 2007 was 17.74% and for the period October 1, 2007 through June 30, 2008 was 16.72%. Basic plan members make no contributions, but non basic plan members contribute to the Member Investment Plan (MIP) at rates ranging from 3.0% to 4.3% based on the date of enrollment and the graduated permanent fixed rate contributions. The District's contributions to MPSERS for the last three years were as follows:

2006	\$2,340,917
2007	2,698,419
2008	2,427,015

Post Retirement Benefits –

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage which are funded on a cash disbursement basis. Retirees having these coverages contribute an amount approximately equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverage. Required contributions for these post retirement benefits are included in the actuarial rates determined as part of the basic retirement benefits.

NOTE 10 - RISK MANAGEMENT:

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and workers' compensation, as well as medical benefits provided to employees. The School District participates in the SET-SEG risk pool for property loss, general liability, fleet coverage, errors and omissions. The pool, organized under Public Act 138, is composed of School Districts throughout the State of Michigan who pay annual premiums based on the level of coverage, experience, deductible levels, etc. The pool retains the first \$500,000 coverage for each individual claim with reinsurance for amounts in excess of that amount. In years when premiums exceed the claims and other costs, refunds are given based on a number of criteria, including those mentioned above. Should the plan need additional funding they could also assess the members' additional charges.

The School District contracts with a commercial insurance carrier to provide medical benefits. The School District also participates in the SET-SEG Self-Insured Workers' Compensation Fund for claims relating to workers' compensation. The pool operates as a common risk sharing management program for school districts in Michigan. Members' premiums are used to purchase commercial excess insurance and to pay member claims in excess of deductible amounts.

SOUTH LAKE SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 11 - PRIOR PERIOD ADJUSTMENT:

At June 30, 2007 the Employee Benefit Fund was reported as a fiduciary fund type. As of June 30, 2008 this fund was reclassified to an Internal Service Fund, which is considered a proprietary fund type. The effect of the reclassification was an increase of \$217,845 to the June 30, 2007 net assets, which is reflected on the Statement of Activities for the year ended June 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH LAKE SCHOOLS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2008

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Local sources	\$ 6,539,730	\$ 6,548,117	\$ 6,621,953	\$ 73,836
State sources	17,944,046	17,057,413	17,011,291	(46,122)
Federal sources	870,251	871,895	804,790	(67,105)
Interdistrict sources	549,668	617,538	594,574	(22,964)
Total Revenues	<u>25,903,695</u>	<u>25,094,963</u>	<u>25,032,608</u>	<u>(62,355)</u>
Expenditures:				
Instruction -				
Basic programs	11,488,289	11,251,494	11,055,561	195,933
Added needs	1,963,421	1,992,406	1,954,642	37,764
Support Services -				
Pupil	2,958,838	3,044,090	2,975,904	68,186
Instructional staff	2,040,086	2,216,757	2,060,178	156,579
General administration	504,188	489,245	430,341	58,904
School administration	1,400,404	1,405,697	1,359,615	46,082
Business services	377,844	353,808	296,475	57,333
Operation and maintenance	3,665,973	3,619,150	3,464,608	154,542
Pupil transportation services	573,606	551,863	504,655	47,208
Central	138,978	74,601	57,096	17,505
Community Services -				
Custody and care of children	298,402	302,300	298,585	3,715
Outgoing Transfers	30,583	30,583	23,581	7,002
Total Expenditures	<u>25,440,612</u>	<u>25,331,994</u>	<u>24,481,241</u>	<u>850,753</u>
Excess of revenues over (under) expenditures	463,083	(237,031)	551,367	788,398
Other Financing Uses :				
Transfer Out	<u>(430,439)</u>	<u>(420,439)</u>	<u>(420,439)</u>	<u>-</u>
Net Change in Fund Balance	32,644	(657,470)	130,928	788,398
Fund Balance at beginning of year	<u>3,679,236</u>	<u>3,679,236</u>	<u>3,679,236</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 3,711,880</u>	<u>\$ 3,021,766</u>	<u>\$ 3,810,164</u>	<u>\$ 788,398</u>

* The original budget was adopted on June 6, 2007 with the final amended budget adopted on May 21, 2008.

OTHER SUPPLEMENTARY INFORMATION

SOUTH LAKE SCHOOLS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2008

	Special Revenue Funds		
	Athletic	Food Service	Latch Key
ASSETS			
Cash and cash equivalents	\$ 3,977	\$ 22,664	\$ 39,610
Accounts receivable	-	100	-
Taxes receivable	-	-	-
Total Assets	<u>\$ 3,977</u>	<u>\$ 22,764</u>	<u>\$ 39,610</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 3,939	\$ 180	\$ 87
Due to other funds	-	-	-
Deferred revenues	-	-	1,920
Total Liabilities	<u>3,939</u>	<u>180</u>	<u>2,007</u>
Fund Balance:			
Reserved:			
Debt Service	-	-	-
Capital Projects	-	-	-
Unreserved:			
Undesignated	<u>38</u>	<u>22,584</u>	<u>37,603</u>
	<u>38</u>	<u>22,584</u>	<u>37,603</u>
Total Liabilities and Fund Balance	<u>\$ 3,977</u>	<u>\$ 22,764</u>	<u>\$ 39,610</u>

Debt Service Funds			Capital Projects Funds			Total
2008 Issue	2005 Issue	1997 Issue	Building & Site	Energy Conservation Construction	1997 Construction	
\$ 100	\$ 1,779,206	\$ 170,269	\$ 148,430	\$ 240,147	\$ 53,115	\$ 2,457,518
-	-	-	-	-	-	100
-	13,951	20,084	-	-	-	34,035
<u>\$ 100</u>	<u>\$ 1,793,157</u>	<u>\$ 190,353</u>	<u>\$ 148,430</u>	<u>\$ 240,147</u>	<u>\$ 53,115</u>	<u>\$ 2,491,653</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,513	\$ 27,719
100	-	-	-	-	-	100
-	10,195	14,677	-	-	-	26,792
<u>100</u>	<u>10,195</u>	<u>14,677</u>	<u>-</u>	<u>-</u>	<u>23,513</u>	<u>54,611</u>
-	1,782,962	175,676	-	-	-	1,958,638
-	-	-	148,430	240,147	29,602	418,179
-	-	-	-	-	-	60,225
<u>-</u>	<u>1,782,962</u>	<u>175,676</u>	<u>148,430</u>	<u>240,147</u>	<u>29,602</u>	<u>2,437,042</u>
<u>\$ 100</u>	<u>\$ 1,793,157</u>	<u>\$ 190,353</u>	<u>\$ 148,430</u>	<u>\$ 240,147</u>	<u>\$ 53,115</u>	<u>\$ 2,491,653</u>

SOUTH LAKE SCHOOLS

NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Funds		
	Athletic	Food Service	Latch Key
Revenues:			
Local sources -			
Interest	\$ 17	\$ 174	\$ 885
Other	20,623	317,379	203,608
State sources	-	33,401	-
Federal sources	-	308,234	-
Total Revenues	<u>20,640</u>	<u>659,188</u>	<u>204,493</u>
Expenditures:			
Current -			
Athletics	441,046	-	-
Food services	-	665,157	-
Latch key	-	-	204,436
Capital Outlay	-	-	-
Debt Service			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total Expenditures	<u>441,046</u>	<u>665,157</u>	<u>204,436</u>
Excess of revenues over (under) expenditures	(420,406)	(5,969)	57
Other Financing Sources:			
Transfers in	<u>420,439</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	33	(5,969)	57
Fund Balances at beginning of year	<u>5</u>	<u>28,553</u>	<u>37,546</u>
Fund Balances at end of year	<u>\$ 38</u>	<u>\$ 22,584</u>	<u>\$ 37,603</u>

Debt Service Funds			Capital Projects Funds			Total
2008 Issue	2005 Issue	1997 Issue	Building & Site	Energy Conservation Construction	1997 Construction	
\$ -	\$ 50,730	\$ 87,998	\$ 9,320	\$ 9,553	\$ 2,795	\$ 161,472
-	2,178,283	407,166	15,000	-	-	3,142,059
-	-	-	-	-	-	33,401
-	-	-	-	-	-	308,234
-	2,229,013	495,164	24,320	9,553	2,795	3,645,166
-	-	-	-	-	-	441,046
-	-	-	-	-	-	665,157
-	-	-	-	-	-	204,436
-	-	-	88,552	-	-	88,552
-	325,000	1,050,000	-	-	-	1,375,000
-	589,308	266,264	-	-	-	855,572
-	914,308	1,316,264	88,552	-	-	3,629,763
-	1,314,705	(821,100)	(64,232)	9,553	2,795	15,403
-	-	-	-	-	-	420,439
-	1,314,705	(821,100)	(64,232)	9,553	2,795	435,842
-	468,257	996,776	212,662	230,594	26,807	2,001,200
\$ -	\$ 1,782,962	\$ 175,676	\$ 148,430	\$ 240,147	\$ 29,602	\$ 2,437,042

SOUTH LAKE SCHOOLS

ATHLETICS FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2008

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Local sources -				
Gate receipts	\$ 24,990	\$ 24,990	\$ 20,623	\$(4,367)
Interest	-	-	17	17
Total Revenues	<u>24,990</u>	<u>24,990</u>	<u>20,640</u>	<u>(4,350)</u>
Expenditures:				
Athletics -				
Salaries			195,679	
Insurance			18,777	
FICA, retirement, etc.			48,781	
Purchased services			150,206	
Supplies and materials			27,603	
Total Expenditures	<u>455,429</u>	<u>445,429</u>	<u>441,046</u>	<u>4,383</u>
Excess of revenue under expenditures	(430,439)	(420,439)	(420,406)	33
Other Financing Sources :				
Transfer In	<u>430,439</u>	<u>420,439</u>	<u>420,439</u>	<u>-</u>
Net Change in Fund Balance	-	-	33	33
Fund Balance at beginning of year	<u>5</u>	<u>5</u>	<u>5</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 38</u>	<u>\$ 33</u>

SOUTH LAKE SCHOOLS

FOOD SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2008

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Local sources -				
Sales	\$ 350,152	\$ 316,591	\$ 317,379	\$ 788
Interest	-	-	174	174
State sources -				
Durant	19,155	22,401	21,943	(458)
Other	-	-	11,458	11,458
Federal sources -				
Grants	217,536	295,632	308,234	12,602
Total Revenues	<u>586,843</u>	<u>634,624</u>	<u>659,188</u>	<u>24,564</u>
Expenditures:				
Food Service -				
Salaries			207,154	
Insurance			43,630	
FICA, retirement, etc.			53,322	
Purchased services			4,213	
Cost of goods sold			340,247	
Other expenditures			16,591	
Total Expenditures	<u>586,843</u>	<u>648,937</u>	<u>665,157</u>	<u>(16,220)</u>
Excess of revenue under expenditures	-	(14,313)	(5,969)	8,344
Fund Balance at beginning of year	<u>28,553</u>	<u>28,553</u>	<u>28,553</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 28,553</u>	<u>\$ 14,240</u>	<u>\$ 22,584</u>	<u>\$ 8,344</u>

SOUTH LAKE SCHOOLS

LATCH KEY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2008

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Local sources -				
Tuition	\$ 198,804	\$ 210,176	\$ 203,608	\$(6,568)
Interest	-	-	885	885
	<u>198,804</u>	<u>210,176</u>	<u>204,493</u>	<u>(5,683)</u>
Expenditures:				
Current -				
Salaries			144,800	
Insurance			310	
FICA, retirement, etc.			38,905	
Purchased services			361	
Supplies and materials			5,820	
Other expenditures			14,240	
Total Expenditures	<u>198,804</u>	<u>210,176</u>	<u>204,436</u>	<u>5,740</u>
Excess of revenue over expenditures	-	-	57	57
Fund Balance at beginning of year	<u>37,546</u>	<u>37,546</u>	<u>37,546</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 37,546</u>	<u>\$ 37,546</u>	<u>\$ 37,603</u>	<u>\$ 57</u>

FIDUCIARY FUND

SOUTH LAKE SCHOOLS

AGENCY FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES FOR THE YEAR ENDED JUNE 30, 2008

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>
ASSETS				
Cash and investments	\$ 304,271	\$ 369,003	\$ 389,276	\$ 283,998
Investments	<u>4,618</u>	<u>430</u>	<u>554</u>	<u>4,494</u>
	<u>\$ 308,889</u>	<u>\$ 369,433</u>	<u>\$ 389,830</u>	<u>\$ 288,492</u>
LIABILITIES				
Accounts payable	\$ 2,292	\$ -	\$ -	\$ 2,292
Due to student groups	<u>306,597</u>	<u>707,892</u>	<u>728,289</u>	<u>286,200</u>
	<u>\$ 308,889</u>	<u>\$ 707,892</u>	<u>\$ 728,289</u>	<u>\$ 288,492</u>

SOUTH LAKE SCHOOLS

St. Clair Shores, Michigan

**SUPPLEMENTARY INFORMATION TO BASIC
FINANCIAL STATEMENTS**

(FEDERAL AWARDS)

FOR THE YEAR ENDED JUNE 30, 2008



SOUTH LAKE SCHOOLS

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**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY FINANCIAL INFORMATION**

To the Board of Education
South Lake Schools
St. Clair Shores, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Lake Schools as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements. Those financial statements are the responsibility of South Lake Schools' management. Our responsibility is to express opinions on those financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Lake Schools' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards presented on Pages 6 through 8 is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The information in this schedule has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stewart, Beauvais & Whipple
Certified Public Accountants

October 28, 2008

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
South Lake Schools
St. Clair Shores, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of South Lake Schools as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon, dated October 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered South Lake Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the district's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the district's financial statement that is more than inconsequential will not be prevented or detected by South Lake Schools' internal control.


A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by South Lake Schools' internal control.

Our consideration of the internal control over financial reporting was for the limited purposed described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or, material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Lake Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under ***Government Auditing Standards***.

This report is intended solely for the information and use of the management, Board of Education of South Lake Schools and others within the entity, the Michigan Department of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

October 28, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
South Lake Schools
St. Clair Shores, Michigan

Compliance

We have audited the compliance of South Lake Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. South Lake Schools' major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of South Lake Schools' management. Our responsibility is to express an opinion on South Lake Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about South Lake Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on South Lake Schools' compliance with those requirements.

In our opinion, South Lake Schools complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control over Compliance

The management of South Lake Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered South Lake Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Lake Schools' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the district's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the district's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the district's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, the Board of Education of South Lake Schools and other within the entity, the Michigan Department of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

October 28, 2008

SOUTH LAKE SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass Through Grantor/Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue June 30, 2007	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2008
U.S. DEPARTMENT OF AGRICULTURE -							
Passed through Michigan Department of Education:							
USDA Commodities -	10.550						
J21 Entitlement Commodities 2008		30,580			30,580	30,580	-
J21 Entitlement Commodities 2007		25,604	-	12,504	13,100	13,100	-
		<u>56,184</u>	<u>-</u>	<u>12,504</u>	<u>43,680</u>	<u>43,680</u>	<u>-</u>
Nutrition Cluster -							
National School Lunch Breakfast Program -	10.553						
Breakfast -							
071970 2006-07 Program		3,338	-	-	3,338	3,338	-
081970 2007-08 Program		40,351	-	-	40,351	40,351	-
		<u>43,689</u>	<u>-</u>	<u>-</u>	<u>43,689</u>	<u>43,689</u>	<u>-</u>
National School Lunch Program -	10.555						
Sec. 4 - All Lunches -							
071950 2006-07 Program		3,788	-	-	3,788	3,788	-
081950 2007-08 Program		31,039	-	-	31,039	31,039	-
Sec. 11 - Free and Reduced -						-	
071960 2006-07 Program		18,977	-	-	18,977	18,977	-
081960 2007-08 Program		167,061	-	-	167,061	167,061	-
		<u>220,865</u>	<u>-</u>	<u>-</u>	<u>220,865</u>	<u>220,865</u>	<u>-</u>
Total Nutrition Cluster		<u>264,554</u>	<u>-</u>	<u>-</u>	<u>264,554</u>	<u>264,554</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>290,158</u>	<u>-</u>	<u>12,504</u>	<u>308,234</u>	<u>277,654</u>	<u>-</u>
U.S. DEPARTMENT OF EDUCATION -							
Passed Through Michigan Department of Education:							
Educationally Deprived Children -	84.010						
Title I -							
Title I Part A Imp. Basic Program							
061530 2005-06		190,771	1,757	1,757	-	1,757	-
071530 2006-07		230,879	65,900	225,954	-	41,301	24,599
081530 2007-08		266,239	-	-	264,601	254,588	10,013
		<u>687,889</u>	<u>67,657</u>	<u>227,711</u>	<u>264,601</u>	<u>297,646</u>	<u>34,612</u>

Federal Grantor/Pass Through Grantor/Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue June 30, 2007	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2008
Title V LEA Allocation -	84.298						
Title V Part A Allocation							
070250-0607		510	510	510	-	510	-
080250-0708		501	-	-	501	-	501
		<u>1,011</u>	<u>510</u>	<u>510</u>	<u>501</u>	<u>510</u>	<u>501</u>
Technology Literacy Challenge Grants -	84.318						
074290-0607		2,370	1,820	2,370	-	1,820	-
084290-0708		2,443	-	-	2,443	1,414	1,029
		<u>4,813</u>	<u>1,820</u>	<u>2,370</u>	<u>2,443</u>	<u>3,234</u>	<u>1,029</u>
Improving Teacher Quality -	84.367						
Title II Part A Teacher Training							
060520-0607 Carryover		26,447	26,447	26,447	-	25,414	1,033
070520-0607		101,036	12,552	81,031	20,045	4,223	28,374
080520-0708		122,360	-	-	99,228	115,981	(16,753)
		<u>249,843</u>	<u>38,999</u>	<u>107,478</u>	<u>119,273</u>	<u>145,618</u>	<u>12,654</u>
Total Passed Through Michigan Department of Education		<u>943,556</u>	<u>108,986</u>	<u>338,069</u>	<u>386,818</u>	<u>447,008</u>	<u>48,796</u>
Passed Through Macomb County Intermediate School District:							
Special Education Cluster (IDEA) -							
Handicapped Preschool and School Program -	84.027						
PL 94-142 Flowthrough -							
070450-0607 Regular		405,461	59,611	262,341	143,120	202,731	-
080440-0708		4,500	-	-	2,529	2,529	-
080450-0708 Regular		418,236	-	-	234,894	158,107	76,787
		<u>828,197</u>	<u>59,611</u>	<u>262,341</u>	<u>380,543</u>	<u>363,367</u>	<u>76,787</u>
Special Education Cluster -							
Special Education Preschool Grants -	84.173						
PL 94-142 Preschool Incentive -							
070460-0607 Regular		\$ 6,912	\$ 165	\$ 3,621	\$ 3,291	\$ 3,456	\$ -
080460-0708 Regular		14,710	-	-	14,710	7,311	7,399
		<u>21,622</u>	<u>165</u>	<u>3,621</u>	<u>18,001</u>	<u>10,767</u>	<u>7,399</u>
Total Special Education Cluster		<u>849,819</u>	<u>59,776</u>	<u>265,962</u>	<u>398,544</u>	<u>374,134</u>	<u>84,186</u>

<u>Federal Grantor/Pass Through Grantor/Program Title Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>Accrued (Deferred) Revenue June 30, 2007</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2008</u>
Voc Ed Basic Grants to States - Special Needs - 083520/801216	84.048	<u>16,510</u>	<u>-</u>	<u>-</u>	<u>16,510</u>	<u>16,510</u>	<u>-</u>
Drug-Free Schools and Communities - Drug Free Formula - 082860/0708	84.186	<u>4,430</u>	<u>-</u>	<u>-</u>	<u>2,918</u>	<u>2,918</u>	<u>-</u>
Total Passed Through Macomb County Intermediate School District		<u>870,759</u>	<u>59,776</u>	<u>265,962</u>	<u>417,972</u>	<u>393,562</u>	<u>84,186</u>
Total U.S. Department of Education		<u>1,814,315</u>	<u>168,762</u>	<u>604,031</u>	<u>804,790</u>	<u>840,570</u>	<u>132,982</u>
TOTAL FEDERAL AWARDS		<u><u>\$ 2,104,473</u></u>	<u><u>\$ 168,762</u></u>	<u><u>\$ 616,535</u></u>	<u><u>\$ 1,113,024</u></u>	<u><u>\$ 1,118,224</u></u>	<u><u>\$ 132,982</u></u>

The accompanying notes are an integral part of this schedule.

SOUTH LAKE SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The School District administers a number of federal grants, which are paid under reimbursement arrangements in which the District bills the Michigan Department of Education or other pass-through grantors for allowable costs incurred. The programs identified on the Schedule of Expenditures of Federal Awards are reported in the General and Special Revenue Funds of the District.

Revenue has been accrued at June 30, 2008, to match allowable expenditures incurred during the year for each program. Grant funds received in advance that are in excess of incurred costs have been reflected as deferred revenue. All year-end accruals are considered to have met the modified accrual basis revenue recognition criteria of measurability and availability. USDA commodities have been recognized as revenue when received by the District.

NOTE 2 – NONCASH ASSISTANCE:

The value of the noncash assistance (commodities) received was determined in accordance with the provisions of OMB Circular A-133.

NOTE 3 – GRANT SECTION AUDITOR'S REPORT:

Management has utilized Form R-7120 in preparing the schedule of expenditures of federal awards.

SOUTH LAKE SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

Section I – Summary of Auditor’s Results:

Financial Statements

Type of auditor’s report issued:	Unqualified	
Internal controls over financial reporting:		
Material weakness(es) identified?	_____ yes	_____ <u>x</u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ yes	_____ <u>x</u> none reported
Noncompliance material to financial statements noted?	_____ yes	_____ <u>x</u> no

Federal Awards

Internal Control over major programs:		
Material weakness(es) identified?	_____ yes	_____ <u>x</u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ yes	_____ <u>x</u> none reported

Type of auditor’s report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A – 133, Section 510(a)?	_____ yes	_____ <u>x</u> no

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #84.027	Special Education Cluster (IDEA) –
CFDA #84.173	Handicapped Preschool and School Program
	Preschool Grant

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	_____ <u>x</u> yes _____ no

Section II – Financial Statement Findings:

There were no financial statement findings.

SOUTH LAKE SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

Section III – Federal Award Findings and Questioned Costs:

There were no Federal Award Finding and Questioned Costs required to be reported by Section 510(a) of OMB Circular A-133.



AUDIT COMMUNICATION LETTER

October 28, 2008

To the Board of Education
South Lake Schools
St. Clair Shores, Michigan

We have audited the financial statement of South Lake Schools for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated May 29, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered South Lake Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether South Lake School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on South Lake Schools' compliance with those requirements.

Planned Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated to you in our Preliminary Audit Communication Letter and discussions with management.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by South Lake Schools are described in Note 1 to the financial statements. No new accounting policies were adopted during 2007-2008. A fiduciary fund was reclassified to a proprietary fund during the year to better account for accumulated resources used to fund termination payments for qualified employees. We noted no transaction entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate for depreciation which is based on historical data and estimated useful lives. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the custodial credit risk of deposits in Note 3 of the financial statements indicates the District holds \$12,741,057 of total deposits of which \$662,576 is insured with the remaining \$12,078,481 is uninsured/uncollateralized, is particularly sensitive to the financial statement users given the risk of a bank failure, the District's deposits may not be returned.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management (we also proposed and management corrected a number of immaterial and closing entries):

- Adjusting bond proceeds to actual amount received
- Adjusting the amount owed in the internal service fund from the general fund
-

Assistance with GASB 34 Presentation

As a result of our assistance with the GASB 34 presentation, we proposed several entries to the June 30, 2008 account balances to reflect the difference between the Government Fund and the Government-wide financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 28, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

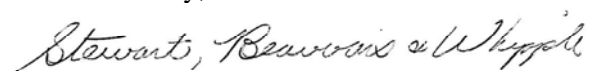
In the Report On Internal Control Over Financial Reporting and On Compliance and Other Matters, which is presented in the District's single audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

We noted a few other items that although are not considered significant deficiencies could improve controls, the operational efficiency and/or compliance with laws and regulations. These items are discussed in Attachment A.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of South Lake Schools and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Attachment A

The following is a list of items that we discussed with administration that are not considered significant deficiencies, however, are items that could improve controls, the operational efficiency of the accounting department and/or compliance with laws and regulations:

The Board should consider adopting a formal policy regarding approval of contracts.

During our audit we noted a couple of contracts that we were unable to trace to formal approval in the Board minutes. Although it was apparent from discussions with the Board President and subsequent documentation provided by management that the Board was aware of the contracts we believe that controls would be improved if the Board adopted a formal policy specifying which contracts need formal Board approval. This could include contracts over a certain threshold.

The District should review its disbursement approval process.

As noted during the audit, Latchkey check registers are not included in the information packet that the board reviews for approval of payments. We also noted the minutes of the School Board documents that the month's bills have been approved, but does not document the total dollar amount being approved (accounts payable checks or electronic funds transfers), creating the possibility of a payment being made without the Board of Education approval.

We noted no such payment being made during the audit; however, we recommend, to further enhance controls, that the Board minutes reflect the total dollar amount being approved and that the board packet include Latchkey check registers for approval.

All journal entries should be reviewed and initialed.

As noted during the audit, several recurring journal entries were not reviewed and initialed by management, which could lead to inaccurate or fraudulent financial reporting. While we noted no discrepancies in the items we examined, we recommend that all journal entries be approved by someone other than the person making the entry.

Controls could be strengthened over athletic event deposits.

During the audit it was noted that not all of the athletic event "game take" receipts were initialed by the individual that counted the amount of cash to be deposited.

In order to increase controls we recommend that the athletic director and the person collecting gate receipts both sign the "game take" receipt prior to the money being taken to the bank.

Controls could be strengthened over employee I-9's.

During the audit it was noted that several employees did not have copies of I-9's on file attributable to the department's location move and change in staff members. We recommend that human resource staff review the files to ensure all required employees have I-9's on file as required by the IRS.

Prepaid lunch money at an elementary school is not deposited.

As noted during the audit, an elementary school deposits only the amount of the money each day that corresponds to the number of meals served. All prepaid lunch money is kept in the school safe and deposited as the meals are subsequently served. The school district should examine the process for collection of lunch money and maintain a prepaid account so that all money receipted is deposited on the same day.

Controls could be strengthened over cafeteria fund deposits.

As noted during the audit, no one reconciles the number of meals sold/served at the elementary and middle school to the cash collected for that that day. Also noted, the same person who reconciles the high school meals to cash received is the same person making the bank deposit. We recommend that someone other than the person depositing the cash should reconcile the number of meals served to the amount of cash received per day.